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THE SELL OF A NEW MACHINE

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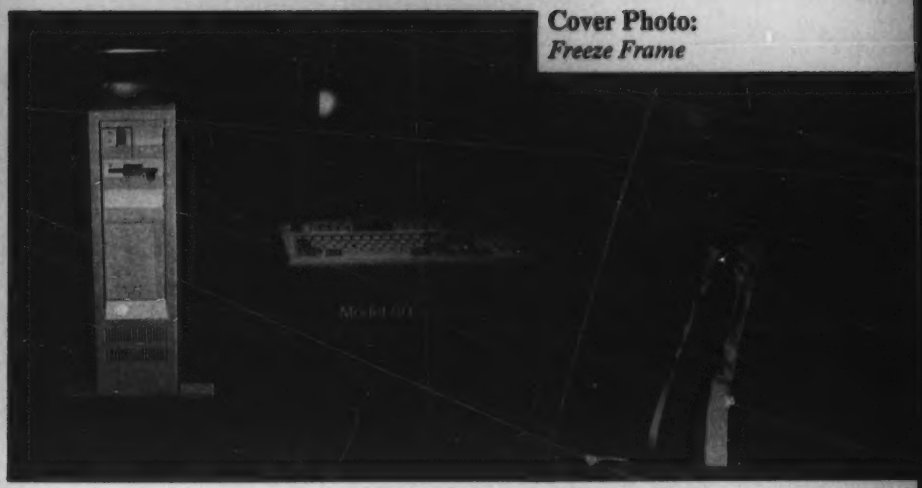

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TECHNOLOGY TRENDS

Large Systems/Joseph Braue

When in doubt, lease

Tax reform may be tipping the buy vs. lease scales toward leasing new large systems, according to one research outfit.

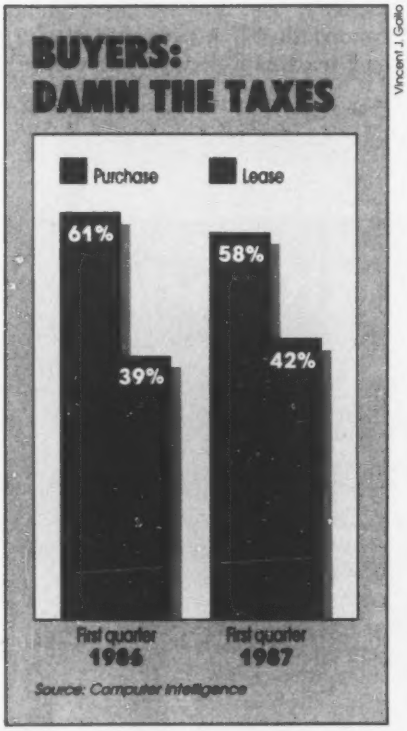
In one of the first looks at 1987 computer acquisitions to be released, Computer Intelligence, La Jolla, CA, found that 3 percent more corporations leased their IBM or plug-compatible 370 mainframe systems in the first quarter of 1987 than in the first quarter of 1986 (see chart). Some say this could be a sign of things to come.

Observers attribute the upswing in leasing to uncertainty among users—when in doubt, lease—and the new alternative minimum tax, which can penalize corporations for taking too many tax deductions on computers and other equipment they buy. To calculate the alternative minimum tax, corporations must add tax deductions, such as accelerated depreciation, to taxable income and multiply by 20 percent. If this number exceeds taxes calculated through standard procedures, corporations have to pay the larger amount.

To avoid excess tax deductions, it may pay for corporations to have lessors assume the title and tax benefits of equipment purchases. For that reason, analysts like Timothy W. Summers of Smith Barney, Harris Upham & Co. Inc., a New York brokerage, expect the leasing of large computer systems to increase about 5 percent over the next three to five years. "The alternative minimum tax is going to make large users of dp equipment more wary of depreciation's effect on the income statement," Summers says. He adds that more corporations will probably choose operating leases, under which the lessor takes the deduction, instead of finance leases, under which the user reaps the tax benefits.

Robert A. Bardagy, executive vice president for Rosemont, IL, lessor Comdisco Inc., discounts the immediate importance of the alternative minimum tax. More corporations are leasing in the first quarter because of product cycles, not taxes, he contends. "Major corporations will have a difficult time figuring out their exposure to the alternative minimum tax this early in the year," Bardagy explains. He expects the alternative minimum tax to become more of a factor toward the end of the year, when corporate deductions begin reaching the limit under the tax.

Bardagy accepts Computer Intelligence's finding that leasing is up, but he asserts that almost 70 percent of IBM and plug-compatible large systems are leased. Bardagy expects Comdisco's leasing volume to show a "marked" increase in the first quarter and is predicting record first quarter revenues. He cites such product cycle changes as IBM's new "E" models of its 3090 mainframes for the increase. With the new models, he says, more of the older 3090 models will find their way into lessors' hands.



Vincent J. Gallo

The new tax laws haven't significantly affected corporate buying patterns regarding large IBM/PCM systems, says Computer Intelligence.

A new office architecture

"For the first time, we are offering the power of a mainframe for the price of a department-level system."

That statement, made at a recent press conference by Ken Baker, Control Data Corp.'s marketing manager for computer systems, would have seemed radical two years ago. Today, however, it's becoming a common marketing pitch. In the past year, IBM, Unisys Corp., and now Control Data—with its two new Cyber 930 models—have downsized their mainframe architectures to run in corporate offices rather than data centers.

Analysts are applauding the fact that Control Data, which has lagged badly on product development in recent years, has produced an office mainframe that rivals the offerings of its mainframe competitors. "It's the first time in a long while that people have a reason to buy from Control Data," says Michael Geran, an analyst with E.F. Hutton & Co. Inc., New York.

Analysts and vendors suggest that technology developed for the new office mainframes will become an integral part of future large systems. Several analysts speculate that IBM will replace the water-cooling units in its mainframe line with the air-cooling thermal-conduction unit developed for the IBM 9377 Model 90. Charles A. Kelly, group manager for entry- and medium-level Sperry systems at Detroit-based Unisys, says that the vendor's experience with the VLSI (very large scale integration) components of the Sperry 2200/200 series will help it reduce the size of components in future mainframes. He says